

**FILED**

MAR 28 2012

SECRETARY, BOARD OF  
OIL, GAS & MINING

**FIRST ADDENDUM TO AGREEMENT FOR RESOLUTION  
OF  
AMENDED NOTICE OF AGENCY ACTION**

The Utah Division of Oil, Gas and Mining ("Division") and Marion Energy, Inc., ("Marion") hereby modify the AGREEMENT FOR RESOLUTION OF AMENDED NOTICE OF AGENCY ACTION ("Agreement") executed on November 18, 2011 as follows.

**Recitals**

1. The Division and Marion ("Parties") have agreed on a plan of operation as required by the Agreement. The plan of operation is attached to this First Addendum as Exhibit A.

2. Although Marion has made substantial efforts to obtain the additional funding as required by paragraph 10 of the Agreement, Marion has not been recapitalized as of the March Board Hearing and has modified its business plan to include the option of obtaining partners for its operations in the Clear Creek Field rather than exclusively on market recapitalization.

3. The Division is willing to extend the time required by the Agreement for Marion to obtain additional funding or partners. However, because of the modifications in its funding plans and the potential delays in reaching this objective and the possibility that these could delay the completion of the tasks in the plan of operation the Parties agree to modify the Agreement.

**Terms and Conditions**

Now Therefore the Division and Marion agree as follows:

1. The hearing on the Amended Notice of Agency Action shall be continued until April 25, 2012.

2. On or before April 24, 2012 Marion shall present the Division with evidence that it has obtained sufficient funding to complete the items in its plan of operation or has joined into agreements with partners for the Clear Creek Field who have been identified and have the capacity to complete the plan of operation.

3. In the event Marion does not provide the evidence as required by the preceding paragraph, the Division's Request for Agency Action shall be set for hearing on the Merits of the Requests at the May 23, 2012 Board hearing.

4. In the event Marion has obtained funding or otherwise provided the Division with satisfactory evidence that it has sufficient capital to complete the items in the approved plan of operation, the Request shall not be dismissed but shall be held in

abeyance pending completion of the following items in the plan of operation by no later than July 12, 2012.

- (A) Approval of the design and completion of repairs necessary to bring the injection well water line into operation;
- (B) Plugging and Abandonment as required of the Utah Fuel #10;
- (C) MIT testing and plugging or production of the Utah Fuels # 1 and #3;
- (D) Plugging or bringing into production Utah Fuels #2, #8, and Utah Mineral State #1.

5. In the event the above items in the plan of operation are not completed by July 12, 2012, the Request shall be set for hearing at the July Board Hearing without further notice. Upon completion of the listed items by July 12, 2012 the matter will be dismissed.

6. Marion will continue to comply with the requirement for reporting and will respond to the audit request delivered on March 20, 2012, within 60 days of this addendum.

7. This First Addendum is not intended as a modification of the remaining obligations of Marion under the Stipulated Order, Agreement, plan of operation and its obligations under the Utah Oil and Gas Conservation Act.

Agreed to by counsel for and on behalf of the Parties effective March 28, 2012.



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Counsel for Utah Division of Oil, Gas  
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**Clear Creek Field -- Plan of Operation**

**Submitted by Marlon Energy, Inc.**

**To**

**Utah Division of Oil, Gas & Mining**

**March 2012**

**Pursuant to the Agreement for Resolution of Amended Notice of Agency Action (Nov. 18, 2011) & the First Addendum (March 28, 2012)**

**WATER LINE:**

The first course of action planned by Marion Energy is to verify the integrity of the water pipeline and perform work to improve containment around the pop off valves along the length of the pipeline according to the plan in the engineer's report that accompanies this plan. This work will commence once the snow melts thus allowing access to the pipeline along its length and is independent of the work at the well sites outlined below. We expect the line testing and, if necessary, repair could commence toward the end of April and the other work to commence in the May/ June time frame. We estimate the actions required by the waterline remediation plan will be ~\$40,000. Obviously, if the waterline is in need of repairs more expense will be incurred.

**ROAD MAINTENANCE/IMPROVEMENTS**

The Trout Springs access road will need some improvements and maintenance. As requested by DOGM, we are dealing directly with the Forest Service to ensure that it meets all applicable requirements.

**WELL OPERATIONS:** Based upon revisions received from DOGM, the following well operations schedule, activity and estimated costs are listed below. . The pre-described pipeline work and methodology will begin as soon as the entire pipeline can be accessed. No wells will be returned to production until the pipeline integrity has been established.

Once water pipeline integrity is verified and the road to ridge can be cleared of snow, Marion will resume producing the wells that are capable of production starting with the Ridge Runner 13-17, Ridge Runner 11-17 and Ridge Runner 2-19. Simultaneously, disposal of produced water into the Alpine School District 3-17 will recommence. Should any of those wells require down hole work (i.e. pump changes), those wells will be left shut in until a rig can be moved into the area and the necessary work performed. Marion will then bring back into production the Oman 2-20, Utah State Minerals #1, Utah Fuels #8 and the Ridge Runner 11-20 wells. This work is expected to commence in May.

Marion will begin to perform MITs and other necessary work on the six wells scheduled for MITs as soon as surface conditions allow, regardless of whether work on the known capable-of-producing wells, described above, has already begun and even if a rig must be relocated from those wells to the MIT wells. At that time, Marion will begin a process of testing each of the following wells in order: Utah Fuel 10; Utah Fuel 3; Utah Fuel 1; Utah Fuel 8; Utah Fuel 2; and Utah State Mineral #1. Each well will have an MIT performed as described below. If the well should fail the test, Marion will either remediate any casing issues or plug and abandon the well. The process for plugging and abandoning each well is listed below. In either case the work will be performed while the rig is on location before moving to the next well. Marion will complete the above work on the six listed MIT wells by July 12, 2012.

In the Table (below) we summarize our best estimate of these procedures. This includes timing and cost of: the MIT, plugging & abandoning, and bringing the well into operation.

**Begin MITs at:**

- **Utah Fuels #10: Plugging Candidate**

Operation	Timeframe	Cost
MIT	2 – 3 days	~\$17,300
Plug & Abandon	~3.5 days	~\$51,400
Temporary tie-in & restart	2 – 3 days	~\$10,000

- **Utah Fuels #3:** Complete the remedial work that was begun in the spring of 2011. If a successful squeeze is obtained, Marion will conduct an MIT and return to production. If an MIT is unsuccessful, Marion will P&A the well.

Operation	Timeframe	Cost
Complete remedial work	7-10 days	\$70,000
MIT	2 – 3 days	~\$17,300
Plug & Abandon	~3.5 days	~\$51,400
Temporary tie-in & restart	Already tied-in	Already tied-in

- **Utah Fuels #1:** Very little is currently known of the wellbore integrity, therefore estimates are probably a little less accurate. Depending on result, we'll either plug or produce.

Operation	Timeframe	Cost
MIT	2 – 3 days	~\$17,300
Plug & Abandon	~3.5 days	~\$51,400
Temporary tie-in & restart	6-7 days	~\$60,000

- **Utah Fuels #8:** Return to Production

Operation	Timeframe	Cost
Temporary tie-in	4 days	~\$15,000

- **Utah Fuels #2:** This well has passed an MIT already but, based upon field data gathered prior to shutting in this well a confirmation of casing integrity would be prudent. Depending upon the outcome of that test Marion will either return the well to production or P&A the well prior to moving the rig.

Operation	Timeframe	Cost
MIT	2 – 3 days	~\$17,300
Plug & Abandon	~3.5 days	~\$51,400
Temporary tie-in & restart	3 days	~\$7,000

- **Utah State Minerals #1:** Return to production

Operation	Timeframe	Cost
MIT	2 – 3 days	~\$17,300
Plug & Abandon	~3.5 days	~\$51,400
Temporary tie-in & restart	2 – 3 days	~\$10,000

- **Oman 2-20, Utah Fuels #8, Utah State Minerals #1:** As per the attached letter (dated October 10, 2011) these wells do not need MITs. The Oman 2-20 has been in operation and is a producing well. Utah Fuels #8 had a successful MIT performed on February 8, 2010 and the Utah State Minerals#1 had a successful MIT performed on January 6, 2011. This well will be either plugged or put on production.

In total the program is expected to take 28 – 42 working days (weather permitting) and cost between \$215k and \$375k. Additionally there may be some slight time in moving the rig between locations. This will obviously be stretched if we need to do additional work on any of the seven wells in the restart plan.

#### **MIT Procedure:**

1. MIRUPU, NDWH, NUBOP
2. PU appropriate tubing workstring, RBP and Baker LOK-SET equivalent packer
3. TIH with assembly and set RBP +/- 100' above perf's or liner top whichever is appropriate
4. Set packer +/- 60' above RBP and test plug
5. Release packer and attempt to fill annulus with production water. If annulus can be filled, reset packer and pressure test annulus to 1000 psi for 30 min on chart
6. If annulus will not fill or will not test, unseat packer and pull 4 stds tubing
7. Reset packer and test interval from RBP to packer.
8. Move packer and plug testing intervals determined at the wellsite
9. Once casing condition is determined, either squeeze the appropriate intervals and prepare to retest or plug and abandon the well.

Estimated cost to run a simple MIT is +/- \$17,300/well (see AFE below)

#### **AFE Estimate for simple MIT:**

2 days rig time @ \$4000/day	\$8,000
Rental Tools	\$5,000
Water/Trucking	\$1,800
Testers	\$1,000
Misc. trucking	\$1,500
<b>Total</b>	<b>\$17,300</b>

#### **Plug and Abandonment Generic Procedure:**

1. MIRUPU, NDWH, NUBOP
2. PU appropriate tubing workstring and CIBP
3. TIH and set CIBP +/- 100' above existing perf's or liner top whichever is appropriate
4. Spot 100' cement plug on top of CIBP
5. WOC (time to be determined at wellsite)
6. TIH and tag cement plug
7. Circulate gel/water to 100' below surface

8. Set 100' cement plug with TOC +/- 1500' from surface
9. WOC
10. TIH and tag cement plug
11. Set 100' cement plug to surface
12. Pump additional cement through 1" tubing into bradenhead annuls filling to surface
13. Install identification marker

Estimated cost for a problem free P&A is \$51,400 (see AFE below)

AFE Estimate for simple P&A:

3.5 days rig time @ \$4,000/day	\$14,000
CIBP	\$1,800
Trucking	\$3,000
Cement	\$20,000
Workstring Rental	\$10,800
Water/trucking	\$1,800
<b>Total</b>	<b>\$51,400</b>

#### Additional Items:

Marion has employed full time contract labor to maintain ongoing field operations in a professional manner. All pertinent unresolved issues from DOGM NOV's (identified by inspection dates 4/27/2011, 8/3/2011, 8/4,5,17/2011, 8/17/2011 and 11/10/2011) either have been addressed or will be addressed as detailed below. Additionally, good housekeeping practices will continue to be implemented with all issues being dealt with as they arise and as field and weather conditions permit. We estimate that completing the actions required by the NOV's (both at Clear Creek and Helper) will cost approximately \$40,000.

**NOV 4/27/11:** Many of these violations relate to signage. We have had some of these signs re-installed. We have quotes to produce the remaining and they will be installed prior to start-up.

<u>Well Name</u>	<u>Violation</u>	<u>Action Taken</u>	<u>Status</u>
Utah Fuel #3	Cellar not covered, Housekeeping, no well sign	Cellar covered, Received quote to manufacture sign	Pending
Utah Fuel #2	No well sign	Received quote to manufacture sign	Pending
Utah Mineral State #1	No well sign, erosion from access road	Received quote to manufacture sign, waiting on start-up to work on road	Pending
Utah Fuel #8	Housekeeping issues	Cleaned up location and removed extra equipment	Complete
ASD 3-17	Fence down	Stood fence back up and secured	Complete
ASD 6-17	Fence down, berm inadequate	Stood fence back up and	Complete

		secured, repaired berm	
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**NOV 8/3/11:** The only open violation here relates to the waterline and has been addressed in the waterline action plan.

<u>Well Name</u>	<u>Violation</u>	<u>Action Taken</u>	<u>Status</u>
Mud Creek Location	Leaking valve on waterline	Unaware of leaking valve - need line operational to see leak	Pending
Mud Creek location	Oil sheen in new ditch	Marion field personnel and state inspector went out and determined "oil sheen" to be caused by numerous large fragments of coal in and around stream. Marion does not produce oil from any of their operations.	Complete
Mud Creek Location	No notification to DOGM for above listed Mud Creek violations	No senior Marion personnel were notified by field personnel. Notification came in the form of NOV	Complete
Mud Creek Location	No notification to DOGM for July 3 air vac leak	Report of undesirable event was e-filed with state as soon as spill was reported to Marion Management	Complete

**NOV 8/4,5,17/2011:** The only open violation here relates to the waterline and has been addressed in the waterline action plan.

<u>Well Name</u>	<u>Violation</u>	<u>Action Taken</u>	<u>Status</u>
Clear Creek Disposal Line	Numerous issues reported in the NOV concerning air vac's, sumps and USM#1 line leak.	Cannot identify specifics of each instance noted while pipeline is not in operation	Pending

**NOV 8/23/11:** There are no open items from this NOV related to Clear Creek.

<u>Well Name</u>	<u>Violation</u>	<u>Action Taken</u>	<u>Status</u>
USM #1	Snow cat blocking access road	Removed snow cat and hauled off	Complete

**NOV 11/10/11:** During the site re-opening and start-up we will complete roustabout work.

<u>Well Name</u>	<u>Violation</u>	<u>Action Taken</u>	<u>Status</u>
Oman 10-29	Well pad erosion	Waiting on start-up to hire roustabout service	Pending
Oman 10-29	Reserve pit reclamation needed	Waiting on start-up to hire roustabout service	Pending
Utah Fuels #1	Open pit reclamation needed	Waiting on start-up to hire roustabout service	Pending

**HELPER:**

At this time Marion has not developed a specific well by well plan for the Helper field, however the following is the status and a generalized plan for dealing with the wells and the issues in the field.

**Overall Field Status**

Currently, there are a number of wells that require various maintenance items performed. These items range from pump changes to replacing pumping units or pumping unit engines. Each well will require a determination of pump status before sundry notices can be sent out regarding pump changes or return to production. Wells that are found to be fully operational will be placed back on production.

Various acts of vandalism have damaged or removed assorted components necessary for returning to and metering production on some wells. Upon successful recapitalization, Marion's field personnel will systematically inspect each Helper well and restore the production facility to a fully operational state in a timely manner.

Once the work in Clear Creek is completed, the rig will be brought to Helper and the well work completed.

**Completion Plans**

There are currently two wells in the Helper field that need completion work performed on them. The Cordingly Canyon #10 is intended to be completed in the Mancos formation. The Kenilworth Railroad #1-A is targeting the Buchkorn Conglomerate. Each well exhibited good gas shows from the mentioned formations while drilling. Completion planning is ongoing and once final plans are developed and approved, a rig will be contracted and completion efforts implemented. Once successful, these wells will be placed on production.

**Additional Items**

Marion has employed full time contract labor to maintain ongoing field operations in a professional manner. Consequently starting in the June/July timeframe all pertinent unresolved issues from DOGM NOV's (identified by inspection dates 4/27/2011, 8/23/2011 and 11/10/2011) will be addressed in due course. Additionally, good housekeeping practices continue to be will be implemented with all issues being dealt with as they arise and as field and weather conditions permit

**NOV 4/27/11:** Many of these open violations relate to signage. We have had some of these signs re-installed. We have quotes to produce the remaining and they will be installed prior to start-up.

<u>Well Name</u>	<u>Violation</u>	<u>Action Taken</u>	<u>Status</u>
Ballpark Canyon #1	Fencing is down	Stood fence back up and secured	Complete
Kenilworth Railroad 15-4	No well sign	Installed sign	Complete
Kenilworth Railroad 15-3	Fence down, trash on	Stood fence back up and secured,	Complete

	location	cleaned up trash	
Kenilworth RR 1-A	No well sign	Installed sign	Complete
Cordingly Canyon 15-1	Open pit	Waiting on start-up	Pending
Cordingly Canyon 11-1	No well sign	Installed sign	Complete

**NOV 8/23/11:** There are no open items on this NOV relating to Helper.

<u>Well Name</u>	<u>Violation</u>	<u>Action Taken</u>	<u>Status</u>
KRR 1-A	Chemical dripping from tank next to well	Removed chemical tank	Complete
Ballpark Canyon 16-2x	No wellhead control	Welded steel plate on exposed casing stub	Complete
Ballpark Canyon 17-2	No wellhead control	Welded steel plate on exposed casing stub	Complete
Kenilworth RR 15-4	No wellhead control	Welded steel plate on exposed casing stub	Complete
Cordingly Canyon 11-1	Fence down	Stood fence back up and secured	Complete
Cordingly Canyon 10-1	Standing water around well	No water was seen when Marion field personnel inspected. Filled in low spots around well	Complete
Various Helper area locations	Locations overgrown with weeds	Cleaned up all locations in Helper area	Complete

**NOV 11/10/11:** There are no open items on this NOV relating to Helper.

<u>Well Name</u>	<u>Violation</u>	<u>Action Taken</u>	<u>Status</u>
KRR 1-A	Wellhead leaking	Repaired 12/2/2011	Complete